United States Court of Appeals

for the Second Circuit

APPELLANT'S REPLY BRIEF

76-7414

IN THE

United States Court of Appeals

FOR THE SECOND CIRCUIT

BP/S

BRUNSWICK CORPORATION and SHERWOOD MEDICAL INDUSTRIES, INC., *Counterdefendants-Appellees*,

v.

DAVID S. SHERIDAN and NATIONAL CATHETER CORPORATION, *Counterclaimants-Appellants.*

On Appeal From The United States District Court For The Northern District of New York

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REPLY BRIEF FOR APPELLANTS

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REPLY BRIEF FOR APPELLANTS

ARGUMENT

Introduction

Appellees' arguments involve three fundamental contradictions. Those contradictions go to the heart of appellees' principal arguments, and, hence, it is necessary to examine the contradictions before responding in detail to the various other aspects of the appellees' arguments.[1]

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[1] As in Appellants' initial Brief, Volume I of the Joint Appendix will be cited herein as "I J.A."; Volume II will be cited as "II J.A.". Portions of the Transcript not included in the Joint Appendix will be cited as "Tr.".

The principal contradiction concerns appellees' assertion that the non-compete provision in the 1971 settlement agreement is not a contract in restraint of trade because it did not prevent the appellants from manufacturing conductive line tubing. Appellees' Brief, 16-18. The contradiction is this. If the 1971 agreement does not bar appellants from making conductive line tubing, then appellees have no basis for their breach of contract claim against the appellants. On the other hand, if the 1971 agreement does bar appellants from making conductive line tubing, then it plainly is a contract in restraint of trade and the lower court erred in directing a verdict.

The appellees seek to have it both ways. On page 17-18 of the Brief, the appellees assert that the District Court was correct in finding no evidence of a contract in restraint of trade because the appellants have consistently maintained that the 1971 agreement did not cover their conductive line tubing. On page 30, however, the appellees assert that the 1971 agreement did cover the appellants' conductive line tubing and that to interpret the non-compete provision in any other way would make it entirely "superfluous, prohibiting only conduct which would otherwise constitute an infringement of the patent or plaintiffs' exclusive license thereunder." Logically, of course, it is impossible to contend that the 1971 agreement did not cover appellants' tubing while at the same time maintaining that it did cover the tubing.[2] Thus, appellees' dilemma is that if the agreement did not cover the tubing then appellees have no breach of contract claim, but if the agreement did cover the

[2] Appellees seek to avoid the contradiction by asserting that even if the agreement did cover appellants' tubing the appellants were not restrained because they made the tubing anyway. Appellees' Brief, 16-18. That is no answer, first, because it is undisputed that appellees used the agreement to prevent appellants from marketing the tubing for a minimum of two and one-half months (and, according to considerable evidence, for seven months [I J.A., 222-223; Tr., 1472-73, 1497-1500]) and, second, because appellees have relied on the agreement in seeking to recover from the appellants all benefits resulting from manufacture and a considerable additional amount.

tubing[3] then the lower court erred in failing to find a contract in restraint of trade.

The appellees' argument concerning ancillary restraints also involves a fundamental contradiction. On the one hand, appellees contend that the restraint imposed was reasonable since it extended for only five years after the date of the 1971 agreement. Appellees' Brief, 37. On the other hand, since the settlement of a lawsuit would not in itself justify any non-compete agreement (Appellees' Brief, 39-40; Appellants' Brief, 31-33), appellees are forced to assert that the restraint is ancillary to the purchase of Sheridan's business in 1960 or to Sheridan's employment which terminated in 1967. Again the appellees are faced with a dilemma. If they assert that the restraint was only five years in length, they cannot show that the restraint was justified; if they assert that the restraint was justified by the 1960 sale, or the 1967 employment, then the length of the restraint becomes indefensible.

The third fundamental contradiction lies in appellees' effort to ignore the Sherwood conductive line tubing patent after having relied on the patent (II J.A., 564-567) to exclude competitors and to control prices for more than fourteen years. Appellees assert, for example, that there is "no evidence that Brunswick possessed monopoly power either in 1960 or 1971." Appellees' Brief, 45-46. Appellees also assert that there was "no evidence of any barriers to entry into the market." Appellees' Brief, 27. In addition, the appellees assert that the "mere possession of 100% of the market in the context of the development of a new product without the power to control prices or exclude competition is not sufficient to establish such power . . . ." Appellees' Brief, 46. Those assertions simply make no sense unless one

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[3] For the same reason, the lower court plainly erred in permitting appellees' breach of contract claim to go to the jury while refusing to instruct the jury on appellants' antitrust defense. (Tr. 2184-87.)

ignores the appellees' patent monopoly on conductive line tubing.

The facts are that from 1962 until 1971, the appellees possessed the exclusive license to use the only patent on conductive line tubing and that, by virtue of the patent, appellees had the uncontested authority to exclude any competitors who sought to manufacture the tubing. With respect to pricing, the appellees *net* profit margin of 68% in 1974 (II J.A., 519), even after they had been forced to cut prices to meet the appellants' competition (*see, e.g.,* II J.A., 544; 546; I J.A., 136-137), is ample evidence of appellees' ability to control prices as a result of the patent monopoly.

In addition to the contradictions discussed above, the appellees' arguments contain numerous misstatements concerning the evidence. For example, contrary to the appellees' assertions, there was evidence to show that National Catheter's conductive line tubing differed from Sherwood's tubing in many respects (I J.A., 87-89; 144-157; 159-175), that Sherwood's tubing [illegible] defective (II J.A., 576; I J.A., 99; 141-142; 166-186; [illegible]-196; 198), that the Sherwood defects presented serious hazards in use (II J.A., 576; 408, 410, 412; I J.A., 166-186; Tr. 142; 143) and that Sherwood and Brunswick made every effort to exclude competitors from the conductive line tubing market. (*See* discussion at pp. 7-10, 14, 15-16 *infra.*) Those misstatements are discussed in appellants' detailed response to appellees' arguments which is set forth below.

I. THE EVIDENCE PRESENTED SHOWED NOT ONLY A CONTRACT BUT ALSO A COMBINATION IN RESTRAINT OF TRADE IN VIOLATION OF SECTION I OF THE SHERMAN ACT.

The principal thrust of appellees' brief is that appellants failed to satisfy the "contract, combination or conspiracy"

requirement of section 1 of the Sherman Act.[4] Appellees argue that "evidence needed to support a contention that either Brunswick or Sherwood entered into a 'contract, combination or conspiracy' simply does not exist."[5] Appellees' Brief, 15. The evidence below makes out not one but two independent grounds for satisfying the "contract, combination or conspiracy" requirement of Section 1. First, the non-compete provision contained in the 1971 settlement agreement was unquestionably a contract in restraint of trade. Second, the concerted efforts of Brunswick and Sherwood to bar Sheridan and National Catheter from the conductive line tubing market clearly constituted a combination in restraint of trade.

A. The Non-Compete Provision in the 1971 Settlement Agreement Was a Contract in Restraint of Trade.

At the heart of the controversy now before the court is a contract entered into by the parties to this action on May 28, 1971. The contract was styled as a settlement of Brunswick's claims against Sheridan, but, as we set forth more fully in our initial Brief, the essence of the contract was the payment of a substantial sum by Brunswick to Sheridan in return for a covenant not to compete. Appellants' Brief, 20. The intent, breadth, and reasonableness

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[4] Although not mentioned by the appellees in their brief, the lower court's decision was also based on a misreading of this Court's decision in *Bradford* v. *New York Times Co.*, 501 F.2d 51 (2d Cir. 1974). (I J.A. 318 and Memorandum Decision dated July 22, 1976, 2, 5.) The court read *Bradford* as holding that a post-employment restraint which was "fair" under state law standards could not be found to violate the federal antitrust laws. That reading of *Bradford*, of course, was repudiated by the Court in its recent decision in *Newburger, Loeb & Co.* v. *Gross*, 1977-2 Trade Cases ¶ 61,604 (2d Cir. 1977), as appellees seem to concede on page 17 of their brief. *See also* Appellants' Brief 29-30.

[5] Appellees suggest no other basis on which the lower court's verdict could be upheld. If a contract or combination in restrain of trade had been found, appellants contend that the restraint was unreasonable as a matter of law (Appellants' Brief, 13-33), and, at a minimum, reasonableness would have been an issue for the jury.

of this restrictive covenant is now disputed by the parties, but one fact would seem to be beyond question: the covenant not to compete was a contract in restraint of trade.[6]

Incredibly, Brunswick and Sherwood now argue that this agreement does not satisfy the threshold "contract, combination or conspiracy" requirement of section 1 of the Sherman Act. Brunswick first asserts that "Sheridan has never pleaded or offered evidence in support of any such theory" that the settlement agreement constituted a contract in restraint of trade. Appellees' Brief, 16-17. This simply is not true. Paragraph 8 of Sheridan's Amended Counterclaim alleged:

> Plaintiffs have adopted an improperly broad and expansive interpretation of paragraph 5 of the settlement agreement, and that paragraph, as construed and sought to be enforced by plaintiffs, would constitute a contract unreasonably in restraint of trade in violation of Section 1 of the Sherman Act (15 U.S.C. § 1 [1970]).[7]

Ev[illegible]nce that Brunswick, Sherwood, Sheridan and National [illegible]atheter were parties to this contract has never been disputed (II J.A., 387), and, indeed, is the basis of Brunswick's main claim below (I J.A., 2, ¶ 8).

Appellees also seek to create the impression that appellants' counsel was unable to respond to the lower court's questions concerning the evidence of a contract or combination in restraint of trade. That misimpression is created by quoting the lower court's questions and omitting counsel's responses. Appellees' Brief, 13-15. Appellees, for in-

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[6] Indeed, as Justice Stevens recently observed, a covenant not to compete is "the classic example of a contract in restraint of trade." *Vendo Company* v. *Lektro-Vend Corp.*, 97 S. Ct. 2881 at 2898 (1977) (Stevens, Brennan, White and Marshall, JJ. dissenting).

[7] In characterizing Sheridan's counterclaim, Brunswick quotes from paragraphs 9, 10, 11 and 13 of Sheridan's amended counterclaim, but carefully avoids even a citation to paragraph 8. (I J.A., 9-13.)

stance, quote the Court's inquiry on page 2111 of the transcript (I J.A., 285) concerning evidence "that there was an antitrust conspiracy and a monopoly design," but they neglect to quote the response on the following page that: "There certainly was a contract. A contract attempting to impose a restriction on Sheridan and National Catheter." (I J.A., 286.)

Brunswick's legal arguments are equally lacking in merit. Citing this Court's recent decision in *Newburger, Loeb & Company* v. *Gross,* 1977-2 Trade Cases, ¶ 61,604 (2d Cir. 1977), Brunswick next concedes that non-compete agreements are subject to scrutiny under the antitrust laws. Appellees' Brief, 17. Appellees proceed to argue, however, that this rule does not apply here because "Sheridan's position since the signing of the contract has consistently been that the agreement did not extend to the tubing." Appellees' Brief, 17.

We do not dispute that Brunswick's and Sherwood's construction of the covenant not to compete is far broader than Sheridan's. But these differing interpretations are of no significance here.

First, Brunswick entered into a contract which it says bars Sheridan from manufacturing conductive line tubing of any kind (I J.A., 71). It acted on this construction by threatening to embroil Sheridan's customers in litigation if they purchased tubing from Sheridan (I J.A., 73; 74), and it has brought this lawsuit to enforce its broad interpretation. Under these circumstances Sheridan's resistance can provide appellees with no immunity from antitrust scrutiny. The Sherman Act cannot be read to withhold protection from a covenantor until after he has yielded to the covenantee's attempts to enforce an overbroad restraint. If Appellees were now prepared to admit: 1) that the contract does not prohibit Sheridan from making the challenged conductive line tubing and 2) that the president of Sherwood was unjustified in seeking to prevent American

Hospital Supply Corporation from purchasing the challenged tubing, this might be a different case. But clearly they are not prepared to do so. Appellees persist in their attempt to enforce their interpretation of the contract and, indeed, argue for their construction in this same brief. Appellees' Brief, 30.

Second, appellees' argument reduces to the proposition that the contract requirement of the Sherman Act requires that both parties to a restrictive covenant specifically intended thereby to unreasonably restrain trade. Appellees cite no cases in support of this proposition, and we are aware of none that do.

Finally, and perhaps most importantly, where the threshold "contract in restraint of trade" requirement of section 1 of the Sherman Act is concerned, questions of breadth are irrelevant. The breadth of this non-compete clause is relevant only to a determination of its reasonableness—a jury question not reached by the court below. Whether this non-compete clause be construed narrowly or broadly it unquestionably remains a contract in restraint of trade.

Appellees also argue that the non-compete provision cannot constitute a contract in restraint of trade because if it did appellants' claim would be barred by the doctrine of *in pari delicto*.[8] Appellees' attempt to raise an *in pari delicto* defense at this stage in the proceeding is somewhat disingenuous, first, because the defense was expressly waived below and, second, because the *in pari delicto* defense is inapplicable to appellants' claim.

The *in pari delicto* defense is an affirmative defense which must be specifically set forth in a party's answer. Fed. R. Civ. P. 8(c). Appellees did not plead *in pari delicto* in their answer to Sheridan's counterclaim and never raised

[8] In footnote 15 on pages 17-18 of their brief, appellees intimate that "Sheridan's position was required to avoid the application of the doctrine of *in pari delicto* because otherwise appellants would have agreed to a covenant they now claim is unlawful . . . ."

the defense at trial. Moreover, appellees' counsel expressly renounced this defense during argument on the directed verdict motion:

> MR. TUCKER: . . . we haven't raised the *in pari delicto* defense here at all. Our position is that this is not a contract which unreasonably restrains trade and I disagree with Mr. Arness on that point. [Tr. 2144.]

Under those circumstances, the defense cannot be properly raised at this late date. Issues not raised in the trial court cannot be presented for the first time on appeal.

In addition to the procedural defect, the *in pari delicto* argument is clearly without merit. The Supreme Court's decision in *Perma Life Mufflers, Inc.* v. *International Parts Corp.*, 392 U.S. 134 (1968), is squarely on point. Recognizing that "the purposes of the antitrust laws are best served by insuring that the private action will be an ever present threat to deter anyone contemplating business behavior in violation of the antitrust laws," 392 U.S. at 139, Justice Black stated:

> We therefore hold that the doctrine of *in pari delicto* with its complex scope, contents and effects, is not to be recognized as a defense to an antitrust action. [392 U.S. at 140.)[9]

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9 Brunswick suggests that Justice Black's unequivocal language is somehow inapplicable here because of limiting language in the concurrences of five Justices, because of the decision in *Bernstein* v. *Universal Pictures, Inc.*, 517 F.2d 976 (2d Cir. 1975), and because three of the four Justices joining in the plurality opinion in *Perma Life* have since left the court. Appellee's Brief 17-18, n.15. This is arrant nonsense. First, on the facts of this case none of the *Perma Life* Justices would have permitted an *in pari delicto* defense. The restrictive covenant was formulated by Brunswick and inserted into the contract at its insistence. (II J.A., 579-580.) Sheridan was obviously not on "equal footing" with Brunswick. Sheridan profited in no way from the terms of the noncompete clause; it operated exclusively to his detriment. Second, these same facts preclude reliance on *Bernstein* v. *Universal Pictures, Inc.*, 517 F.2d 976 (2d Cir. 1975). Moreover, *Bernstein* was an estoppel case, not an *in pari delicto* case. The court expressly declined to express an opinion concerning the appropriate scope of any exceptions to the *Perma Life* rule. 517 F.2d at 982. Finally, as to Brunswick's third

In sum, the contract not to compete plainly is a contract in restraint of trade. Appellees' resort to an *in pari delicto* defense is barred both by express waiver and settled Supreme Court precedent.

B. The Concerted Efforts by Brunswick and Sherwood to Bar Sheridan from the Conductive Line Tubing Market Constituted a Combination in Restraint of Trade.

A second and independent ground for satisfying the "contract combination or conspiracy" requirement of Section 1 is the combination by Brunswick and Sherwood to bar Sheridan and National Catheter from the conductive line tubing market. Here again, appellees make the bald assertion that "the record contains no evidence that Sherwood and Brunswick engaged in any joint activity in restraint of trade". Appellees' Brief 16, n.12. Here again their argument is controverted by undisputed evidence. The record below reveals at least four overt acts taken in concert by Brunswick and Sherwood as part of their anti-competitive campaign against Sheridan. We shall review these acts in turn.

(1) BRUNSWICK AND SHERWOOD COMBINED TO BRING THE 1968 LAWSUIT AGAINST SHERIDAN.

Brunswick and Sherwood first combined to bring suit against Sheridan in 1968 to enforce the non-compete agreement entered into in 1960 (II J.A., 506-517). The clause they sought to enforce was a 19-year (1960-1979) covenant not to compete which barred Sheridan from competing with any of Brunswick's products anywhere in the world. This joint action was indisputably a combination and was clearly undertaken for the purpose of restraining trade.

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point, we confess that we were heretofore unaware that the principle of *stare decisis* was affected by the mortality of judges.

(2) Brunswick and Sherwood Combined to Extract the 1971 Covenant Not to Compete from Sheridan.

In 1971 Brunswick and Sherwood combined once again to settle the 1968 lawsuit—jointly conditioning their abandonment of the suit on Sheridan's ratification of a revised covenant not to compete extending to 1976. Brunswick now seems to argue that this joint action somehow does not constitute a combination since "the 1968 complaint named both Brunswick and its successor Sherwood as parties plaintiff. Inasmuch as both were parties to the prior lawsuit, both were necessary parties to the settlement of it in 1971. The settlement agreement imposed obligations on both Brunswick and Sherwood." Appellees' Brief, 15. This view is, of course, entirely inconsistent with reality. Brunswick and Sherwood each determined to settle the lawsuit and each determined to settle on the same terms. The unity of purpose and action implicit in their joint efforts was made explicit in a memorandum from K. A. Marshall of Brunswick's Health and Science Division to William L. Neiman of Brunswick's law department (II J.A., 579, 580). The memorandum reviews settlement strategy discussions held with John Willman, President of Sherwood:

> After talking with you, I reviewed again with John [Willman] the basic objectives that we have in mind. A couple of points that I think are important.
>
> John makes it clear that our desire is to preclude Dave's ingenuity and imagination from figuring out ways to do what we are able to do with the use of his patents. Therefore, we would not be interested in giving him the right to do what anyone else can do. He has proven to be more imaginative in these areas. (II, J.A., 579-580.)

It cannot now be denied that Brunswick and Sherwood combined to develop a non-compete clause of the settlement agreement or that they combined to procure Sheridan's ratification. Under Section 1 of the Sherman Act such conduct constitutes a combination in restraint of trade.

(3) Brunswick and Sherwood Combined to Interfere with Sheridan's Contractual Relations with American Hospital Supply Corporation.

Yet a third instance of joint conduct was made out by Brunswick and Sherwood's interference with Sheridan's contractual relations with his customers. Brunswick now argues that: (1) "Sheridan offered no evidence to show that Willman's acts were the result of any agreement or joint undertaking between Sherwood and Brunswick" (Appellees' Brief, 19); and (2) "the cases and authorities uniformly hold" Willman's conduct to be privileged (Appellees' Brief, 21). The lower court plainly rejected that view, and the appellees have made no effort to seek a review of the court's ruling. Count II of the appellants' counterclaim alleged that both Brunswick and Sherwood had interfered with Sheridan's contractual relations. (I J.A., 14, ¶ 18). After reviewing the evidence, the lower court determined that Sheridan had made out a case for the jury on this claim, and it denied Brunswick's directed verdict motion to this count (I J.A., 322).

(4) Brunswick and Sherwood Combined to Bring the Instant Lawsuit.

Finally, a fourth instance of combined action is the bringing of this very lawsuit. Brunswick and Sherwood have combined to adopt an improperly broad construction of the 1971 non-compete agreement and now seek the aid of the courts in enforcing this construction. Brunswick argues that "the bringing of a lawsuit is not unlawful and the fact that two parties join in a single complaint does not convert it into a conspiracy or combination." Appellees' Brief, 18. Brunswick then quotes a paragraph in *California Motor Transport Co.* v. *Trucking Unlimited*, 404 U.S. 508, 510-511 (1972) in support of the proposition that the bringing of a lawsuit is an exercise of the right of petition generally protected by the First Amendment. Appellees' Brief, 18. With this general proposition we do not quarrel. The *California*

Motor Court was careful to make clear, however, that "it is well settled that First Amendment rights are not immunized from regulations when they are used as an integral part of conduct which violates a valid statute." *Id.* at 514.

> We said, however, in *Noerr* that there may be instances where the alleged conspiracy 'is a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor and the application of the Sherman Act would be justified.' [404 U.S. 511.]

The *California Motor* Court proceeded to find that the conduct complained of therein *could* constitute a violation of the antitrust laws and remanded the case for trial. 404 U.S. at 516.

Brunswick also argues that "even if there were evidence of joint activity by Sherwood and Brunswick in restraint of trade, the *Kiefer-Stewart* line of cases does not lead inexorably to the conclusion that this would constitute a combination or conspiracy under section 1." Appellees' Brief, 16 n.12. Contrary to Brunswick's assertion, the *Kiefer-Stewart* line of cases is fully applicable here, and it does require that Brunswick and Sherwood be held accountable for their concerted efforts to restrain trade.

Brunswick and Sherwood are independent corporate entities. At all times relevant to this case 15 percent of Sherwood's stock was publicly held, and 85 percent of its stock was held by Brunswick. Appellees' Brief, 6, n. 4. Joint action between two such independent entities is fully subject to antitrust scrutiny. Since Brunswick and Sherwood "availed themselves of the privileges of doing business through separate corporations, the fact of common ownership could not save them from any of the obligations that the law imposes on separate entities." *Perma-Life Mufflers, Inc.* v. *International Parts Corp.,* 392 U.S. 134, 141 (1968).[10]

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[10] Similarly, *Triebwasser & Katz* v. *American Telephone & Telegraph Co.,* 535 F.2d 1356 (2d Cir. 1976), provides no basis for attempting to avoid the applica-

II. APPELLEES' CONSTRUCTION AND APPLICATION OF THE NON-COMPETE PROVISION IN THE 1971 AGREEMENT REPRESENTED AN UNLAWFUL ATTEMPT TO EXTEND A PATENT MONOPOLY AND VIOLATED SECTION I OF THE SHERMAN ACT.

Appellants have argued that appellees' use of the 1971 settlement agreement constituted a misuse of patent and, hence, was in violation of Section I of the Sherman Act. Appellants' Brief, 12-18. Despite appellees' efforts to confuse the issue, the argument is a simple one based on undisputed facts: appellees have sought to expand their conductive line tubing patent license protection by requiring the patent licensor to enter into an agreement which they now say bars him from making *any* kind of conductive line tubing—even tubing which is admittedly not covered by their patent license (I J.A., 71; 198-199; 281-282 [proffer]). Under the line of cases culminating in *Compton* v. *Metal Products, Inc.*, 453 F.2d 38 (4th Cir. 1971), *cert. denied,* 406 U.S. 968 (1972), such conduct amounts to a misuse of patent and a violation of the Sherman Act.

Appellees do not dispute that the 1971 agreement operates to expand their patent monopoly, but they appear to argue that this does not render their conduct unlawful since the 1960 covenant was only coincidentally related to the conductive line tubing patent, and since the covenant was reasonably limited and ancillary to other legitimate transactions between the parties. Appellees' Brief, 30-37. These arguments are both factually and legally unsound.

First, appellees state that the 1960 covenant was agreed to before Sheridan's conductive line tubing patent issued, and they argue that the co-existence of the patent and the

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tion of the *Kiefer-Stewart* rule here. Not only did the *Triebwasser* court expressly decline to express any opinion "as to the merits of any substantive antitrust issues," *id.* at 1358, but it stressed that New York Telephone Co. was a wholly-owned subsidiary of AT&T. *Id.* at 1358, n. 1. As noted above, 15 percent of Sherwood's stock was publicly owned and traded.

restrictive covenant was "fortuitous or irrelevant"—that the restraint was not "based on the patent." Appellees' Brief, 35. As appellees well know, however, Sheridan's patent misuse allegation is directed at the *1971* contract not to compete, not the *1960* covenant. The relationship between the 1971 covenant and the patent license was anything but "fortuitous". Appellees' own records show that the appellees' primary, if not sole, purpose in imposing the 1971 non-compete agreement was to expand their patent protection by barring the competition of the one man most capable of improving their patented product: [11]

> John [Willman, then president of Sherwood] makes it clear that our desire is to preclude Dave's ingenuity and imagination from figuring out ways to do what we are able to do with the use of his patent. Therefore, we would not be interested in giving him the right to do what anyone else can do. He has proven to be more imaginative in these areas. [II J.A., 579-580.]

Appellees next engage in a protracted discussion of the ancillary restraints doctrine as a prelude to arguing that a reasonable ancillary restraint in connection with a patent should not be held to constitute a violation of the antitrust laws. Appellees' Brief, 30-35. The short answer is that no restraint involving any extension of the protection afforded a patent is reasonable whether ancillary to another transaction or not.[12] An unbroken line of Supreme Court deci-

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[11] In an effort to justify the restraint imposed, appellees cited the restraint imposed on an "idea man" in *Koehler* v. *Cummings*, 380 F.Supp. 1294 (M.D. Tenn. 1971, as amended 1974). Appellees' Brief, 43. *Koehler*, of course, did not involve antitrust claims. Moreover, the restraint imposed was for only a two-year period from the date of termination of employment. In the instant case, the restraint contained in the 1971 agreement was not even imposed until more than three and one-half years after employment had ceased, and the restraint would have lasted until eight and one-half years after the employment. Thus, the restraint here would have been more than four times as long as the restraint in *Koehler*.

[12] In this case, of course, the non-compete provision was not reasonably ancillary to any legitimate transaction. Appellants' Brief, 26-32. As pointed out in

sions has established that holders or licensees of patents are prohibited from expanding their patent monopoly by *any* means.

These cases make clear that the limited protection from competition which ancillary restraints might provide in other contexts is provided, where patents are involved, by the patent privilege itself. As the Supreme Court noted in *Mercoid Corp.* v. *Mid-Continent Company,* 320 U.S. 661 (1944):

> The grant of a patent is the grant of a special privilege "to promote the Progress of Science and useful Arts." Const., Art. I, § 8. It carries, of course, a right to be free from competition in the practice of the invention. But the limits of the patent are narrowly and strictly confined to the precise terms of the grant.
>
> * * * *
>
> The patent is a privilege. But it is a privilege which is conditioned by a public purpose. It results from invention and is limited to the invention which it defines. [320 U.S. at 665, 666.]

Permitting patent-holders to reinforce or extend their patent protection by signing inventors to ancillary restraints which go beyond the terms of the patent would be directly contrary to the teaching of *U.S.* v. *Univis Lens Company,* 316 U.S. 241 (1942). There the Court held,

> In construing and applying the patent law so as to give effect to the public policy which limits the granted monopoly strictly to the terms of the statutory grant, *Morton Salt Company* v. *Suppiger Co.,* 314 U.S. 488, *the particular form or method by which the monopoly is sought to be extended is immaterial.* [316 U.S. at 251 (emphasis added).]

Appellants' Brief (19-22, 26-32), appellees' dominant purpose in imposing the 1971 covenant was anticompetitive, the contract itself was unnecessary to any legitimate transaction between the parties, and the covenant's terms were overbroad.

Appellees' argument that they needed special protection from Sheridan's know-how does not justify any exception to this rule. Appellees' Brief, 41-42. A similar "special needs" argument was rejected in *B.B. Chemical Company* v. *Ellis*, 314 U.S. 495 (1942):

> The patent monopoly is not enlarged by reason of the fact that it would be more convenient to the patentee to have it so, or because he cannot avail himself of its benefits within the limits of the grant. [314 U.S. at 498.]

Since the evidence below clearly established that the 1971 covenant operated to expand appellees' patent monopoly, that covenant constituted an unlawful misuse of patent. In the context of appellees' other conduct, this patent misuse amounted to a violation of the antitrust laws.

III. APPELLEES HAVE FAILED TO SHOW THAT THE ANCILLARY RESTRAINTS DOCTRINE WOULD APPLY.

Appellees have failed to offer any satisfactory response to appellants' showing that the ancillary restraints doctrine would not apply because the appellees' dominant purpose was anticompetitive, because the appellees possessed monopoly power concerning conductive line tubing and because enforcement of the non-compete agreement would have caused unreasonable harm to the public.

As to purpose, the appellees fail to show any purpose for the non-compete provision other than to prevent competition. Appellees point out (Appellees' Brief, 38-39) that the restraint was contained in an agreement settling the prior litigation, but then seem to concede that a settlement in itself would not justify any anticompetitive restraint (Appellees' Brief, 40). *See also Business Forms Finishing Service, Inc.* v. *Carson*, 452 F.2d 70 (7th Cir. 1971). Appellees next seek to argue that the restraint was justified by the purchase in 1960 and by Sheridan's prior employment which ended in 1967. As noted in Appellants' Brief (26-32), neither would support the restraint imposed here.

As to monopoly power, the appellees baldly assert that there was "no evidence" that appellees possessed monopoly power over conductive line tubing (Appellees' Brief, 45-46) or that the appellees had the power to exclude competitors or control prices (Appellees' Brief, 45-46). As pointed out above (pp. 3-4), both assertions simply ignore Sherwood's patent which was the only patent in the field and which the appellees had the exclusive license to use from 1962 until 1971. Moreover, there was ample additional evidence of appellees' ability to control prices and exclude competitors (pp. 3-4, *supra*).

Regarding harm to the public, the appellees again claim that there is "no evidence" that Sherwood's tubing "presented any danger in normal use in the operating room." Appellees' Brief, 46-47. That assertion ignores the evidence contained in the appellees' own patent application that the danger of a non-conductive connection and a tendency to leak were "undesirable features associated with the *use*" of the tubing (II J.A., 576 [emphasis added]; *see also*, I J.A., 201). In addition, the testimony showed that an operating room supervisor had observed the Sherwood tubing leaking during actual operating room use on several occasions (I J.A., 141-142).

Appellees' assertion that there was no evidence to show that a "microshock" hazard (and the possibility of cardiac arrest) might result from defective conductive line tubing is also mistaken. Appellees' Brief, 3, 47. Plaintiffs' Exhibit 14 contains the best evidence of the microshock hazard and the manner in which conductive line tubing is intended to eliminate that hazard (II J.A., 408, 410, 412). Plaintiffs' Exhibit 14 also points out that conductive materials separated by non-conductive connections, such as might exist with the Sherwood tubing, could present a serious explosion hazard as well as a serious shock hazard (II J.A., 412).[13]

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[13] In addition, Defendants' Ex. BU for identification, which the Court excluded, specifically referred to the microshock hazard presented by any non-conductive

Appellees also assert that even if the restrictive covenant did preclude the sale of a superior product the covenant is not necessarily void. Appellees' Brief, 47. Appellees assert that "in the long run, the public benefits from the development of new devices and products on a large scale by those with resources to do so" and that the development of new devices would be retarded if large, well financed organizations were not willing to invest in the development.

The record shows that precisely the opposite occurred here. The appellees enjoyed a monopoly over the conductive line tubing field for nine years. No new product development was done and no investment in innovation was made (Tr., 773, 774). In fact, the evidence showed that prior to the emergence of National Catheter's competing product Brunswick had refused to upgrade its conductive line tubing (II J.A., 540-541; 559-560; 561). Once competition was introduced, however, the appellees were forced to respond by adopting new features and even patenting an improvement (II J.A., 562-563; 574-578; Tr. 712, 713, 719).

Thus, appellees have failed to rebut any of the grounds offered by appellants to show that the ancillary restraints doctrine would not apply.

IV. APPELLEES HAVE ALSO FAILED TO SHOW ANY VALID BASIS FOR THE LOWER COURT'S DIRECTED VERDICT ON APPELLANTS' MONOPOLIZATION CLAIMS.

Appellees' arguments concerning the claims asserted by appellants under section 2 of the Sherman Act essentially ignore the Sherwood patent. The appellees assert, for example, that evidence that a product innovator was the sole supplier of a product would not, without more, establish a monopoly. Appellees' Brief, 25. In this case, of course, there is more—the appellees' patent.

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suction tubing and the manner in which conductive tubing could be used to prevent that hazard. (II J.A., 583; marked for identification at Tr. 1202.)

Contrary to appellees' assertions (Appellees' Brief, 26-27), there was evidence that appellees possessed monopoly power in the conductive line tubing market and that there was a substantial barrier to entry—again, the appellees' patent. As noted above, (pp. 3-4), appellees' efforts to ignore the patent involve a fundamental contradiction since appellees have relied on the patent for more than fourteen years to exclude competitors and to maintain high prices. Appellees' other arguments concerning appellants' section 2 claims have previously been discussed in Appellants' Brief and require no further discussion here.

CONCLUSION

For the foregoing reasons, and the reasons set forth in appellants' opening brief, appellants Sheridan and National Catheter respectfully request that an order be entered reversing the directed verdict against appellants on count I of appellants' counterclaim. Appellants also request that an order be entered directing the trial court to enter a judgment in appellants' favor on the issue of liability on count I of appellants' counterclaim.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that two copies of the foregoing Reply Brief for Appellants were mailed, first class postage prepaid, this 17th day of November 1977 to Watson B. Tucker, Esquire, Mayer, Brown & Platt, 231 South LaSalle Street, Chicago, Illinois 60604, counsel for appellees.

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CERTIFICATE OF SERVICE

I hereby certify that two copies of the foregoing Reply Brief for Appellants were mailed, first class postage prepaid, this 23rd day of November 1977 to Watson B. Tucker, Esquire, Mayer, Brown & Platt, 231 South LaSalle Street, Chicago, Illinois, 60604, counsel for appellees.

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